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C O N F I D E N T I A L SECTION 01 OF 06 ABUJA 001312

SIPDIS

E.O. 12958: DECL: 06/11/2011

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SUBJECT: NIGERIA: THE OBASANJO ADMINISTRATION AT TWO YEARS

-- A WORK IN PROGRESS

Classified by Ambassador Howard F. Jeter, reasons 1.5 (B/D).

1. (C) Summary. At the halfway mark of his Presidency, Olusegun Obasanjo struggles to rebuild long-neglected institutions, restore public confidence, and jump-start the economy through deregulation and increased investment. Obasanjo's progress toward vital political and economic objectives is slowed by ingrained statist tendencies, a complex political climate with significant regional and ethnic tensions, wide-spread rent-seeking, corruption at all levels of government, and the allure of international diplomacy. The formal political "transition" from military to civilian rule is basically achieved, but a timely economic transition to a productive market economy rooted in rule of law remains problematic. Although the President says his greatest accomplishment has been "to substitute hope for despair," we see sparse evidence that hopefulness is broadly on the rise, but, rather, rising prices and the lack of a visible "democracy dividend." He has governed well beyond the bare six months some observers gave him in May 1999, but both average Nigerians and political elites little understand the time needed to effect fundamental change. Their impatience stokes opposition within and beyond the ruling party. The prospect of a second Obasanjo term is now an open question. End summary.

A Quick Start?

2. (U) As a retired general and former military Head of State acceptable both to the military establishment and to Northern elites, Obasanjo, a Yoruba from the Southwest, wasted no time in putting his stamp on the Fourth Republic. Immediately upon taking office he retired hundreds of military officers who had held political positions and chose a new set of military Service Chiefs. He also instituted review panels for human rights violations, failed contracts, and dubious oil-lifting agreements. His carefully balanced Cabinet, vetted by the Senate for regional and ethnic composition, took office a month later, following rigorous and spirited sessions on government ethics and the development goals of the Administration. His hand firmly on the governmental tiller, Obasanjo appeared poised to put his programs quickly into place, including needed economic reforms.

3. (C) Instead, he stumbled. While President Obasanjo has been a tireless national leader with his eye on an endless series of issues (and he has a cadre of talented, ambitious, and pragmatic political operatives at his service) he is no master of the smoke-filled room. Key policy initiatives were launched without proper preparation (primary example: the unilateral and failed bid to raise fuel prices in the summer of 2000). In a self-seeking political environment where back-scratching and going-along-to-get-along are essential political tools, Obasanjo often came across as the stern schoolmaster laying down the law to unwilling pupils.

4. (C) Obasanjo developed a tense and testy relationship with the National Assembly. An often contemptuous President jostled almost daily with resentful Senators and Representatives. While the President indulged in contests to install or unseat National Assembly leadership, his first full budget proposal languished, as did other initiatives. As advised by the IMF, Obasanjo exercised tight control over the national budget that did finally pass, but legislative critics decried his refusal to spend funds duly appropriated. The Universal Basic Education Scheme and the Poverty Alleviation Program, both launched with much fanfare in 2000, took little account of constituent interests, and generated much avoidable opposition and ill-will among the 36 state governors. The former was ultimately reworked, and the latter quietly scrapped and replaced.

5. (C) Regional tensions surfaced with brutal suddenness in 1999 and 2000. The Obasanjo Administration intervened immediately with security forces, sometimes ham-handedly, sometimes in a more measured manner, but made no apparent efforts to ease the underlying sources of conflict. Many lives were lost, with Nigeria's social fabric considerably

strained, and its rising international reputation besmirched.

A wave of Sharia "reforms" in the North, and the advent of para-military bands in the Southwest and Southeast, increased the sense of a Nigeria drifting toward ever-greater division and discord without significant policy positions or bully pulpit remonstrations from the Executive. The Obasanjo Administration seemed devoid of any sense for useful public relations.

Turning a Corner?

16. (C) However, by January of this year, Obasanjo had largely repaired his relations with the National Assembly. The 2001 budget had passed with relatively little discord. The Niger Delta Development Commission (NDDC) and the Anti-Corruption Commission had been statutorily erected. Funds began to flow for capital projects, and ethnic tensions appeared to slacken as government monies created "jobs" for restive "youths." Growing challenges to the existing federal revenue sharing formula and endless political machinations regarding the 2003 elections did not threaten the cohesion of the nation; rather, they called into question the centralized nature of Nigeria's government structure, and the ability of the GON to make rational decisions.

17. (C) His third year underway, Obasanjo still bestrides the national stage, although the nation's 36 governors, and a host of nascent political movements, threaten both his hold on the national agenda, and his chances for a second term (he is officially mum on the subject). He retains his international prestige as the leading African statesman, and Nigeria's role in continental peacekeeping and diplomatic activism remains largely unchallenged at home and applauded abroad.

The Economy: Some Reform, Some Growth, But Much Undone

18. (C) Economic performance in 2000 and 2001 was mixed. Limited reforms have not stimulated significant growth or investment. Expansion in the economy in 2000 was barely enough to keep up with population growth. At best, a very small democracy dividend has been realized, one far too small to register with most Nigerians. Moreover, a large "dividend" is unlikely when so much of the economy remains in State hands and budgets are devoted to prestige projects rather than poverty alleviation and growth. A private sector assessment shows that Nigeria is one of the most difficult places in the world to do business. The oil sector remains productive, but the rest of the economy is depressed.

19. (C) A host of impediments bedevil the Nigerian political economy: pervasive poverty and massive unemployment; a lack of personal security; an educational system in shambles; ethnic and regional polarization; a barely functioning public health system unable to contend with HIV/AIDS and other infectious diseases; weak institutional capacity; widespread corruption and disrespect for the rule of law; decrepit infrastructure; self-serving and short-sighted demands for political power and economic benefits; and an ingrained mindset that looks to government for solutions to every problem. This is Nigeria's legacy of forty years of mismanagement and, unfortunately, this is Obasanjo's inheritance.

110. (C) The 2001 budget, twice the size of the 2000 budget, far exceeds what can be prudently financed. A large deficit (as much as USD 1.5 billion) seems assured. Capital expenditures are three times as great as the year before, and include many vanity projects and poor policy choices. Yearly inflation, down to 2 to 4% at the end of 1999, is now approaching 20% and, by most accounts, accelerating. The official government exchange rate gyrates dramatically between 100 to 130 to the dollar. Despite the government's formal dedication to economic and social renewal, the budget consistently under-funds primary health care, education, farm-to-market road construction and other essential elements of a rational economic agenda.

But There are Bright Spots

111. (C) The government has begun to sell off its inefficient and bloated parastatals. Fourteen enterprises have been sold in the banking, cement and fuel-retailing sectors. Nigeria Airways, vehicle assembly plants, palm oil companies and fertilizer plants are next. Auction of mobile telephone licenses was especially encouraging. Emergency repairs to the generating facilities of the electricity parastatal have somewhat increased the supply of power (but the antiquated distribution system means systemic black-outs continue). The attempt to liberalize fuel prices, though mishandled, shows

firm recognition of the need to dispense with hugely expensive subsidies (up to USD 2.6 billion), and the GON continues to prepare public opinion for "deregulation." The 2000 Stand-by Arrangement (despite its now serious difficulties) did pave the way for an agreement with the Paris Club to reschedule Nigeria's debt. Quick, decisive action now could still pull the economy from the brink of macroeconomic instability.

12. (C) Reduced expectations in the short-run appear essential. Solid results, however small, that build capacity for the longer-term, are achievable. Although ordinary people may be more willing to give the government the benefit of the doubt than are opinion leaders, neither group appreciates the depth of reforms that are necessary, nor the time required to improve the lot of ordinary Nigerians. Unrealistic expectations may spark political turmoil and aggravate economic malaise, undermining the very reforms needed to make a difference.

Resource Control/Decentralization

13. (C) Virtually all 36 state governors, North and South, advocate a redistribution of national resources, with more funds flowing to the states and local governments, and less being retained by the national government. Exactly how to achieve this is another story entirely. Northern governors, although in agreement on the need to redraw revenue-sharing formulas, are no great friends of the call for local resource control. If the Southern governors win local control, then the federal revenue will consist of not much more than customs receipts, VAT, and income tax, all very minor sources of funds. Although some Northern governors make brave noises on local resource control, in the end the Northern governors appreciate that their budgets would essentially evaporate should federal oil revenue end. The on-shore and off-shore revenue argument is again a cause of unease among Northerners, for greater "derivation" (for oil-producing states) means less federal revenue to be split 36 ways.

A New Ruling Class?

14. (C) A new class of politically astute governors offers the prospect of significant alterations to Nigeria's political economy. Nearly all state treasuries were empty in May 1999. Many states were also deeply in debt. Two years on, debts paid, and (in at least some states) bloated work forces reduced, they are now able to employ the significant resources they receive from the "federation account" for something other than debt reduction and payment of salaries. Some are making real strides toward meeting the needs of their people. Anecdotal accounts indicate that many are drawing on state funds to build campaign war chests.

15. (C) The nation's governors have banded together to press Abuja for more police and anti-crime machinery, movement on infrastructure development, a greater role in national educational and health policy, and a host of other issues. Many governors have proven adept and creative in managing their budgets and resources and forming alliances with their fellow state executives. Northern executives may be distracted over Sharia and more statist than Southern colleagues in their outlook on the national economy. The bulk of the nation's private industry is in the South. Subsidies, programs and employment from the federal government are not easy to part with. But they continue to seek alliances of convenience with their Southern counterparts, as all share a strong interest in reducing federal power. With a President preoccupied with debt relief, ECOWAS affairs, an endless string of foreign visitors and his own extensive foreign travel, the governors quietly solidify their political gains -- and their political power.

New Parties, New Opposition

16. (C) New political "formations" arise almost weekly. So far unregistered by the Independent National Electoral Commission-INEC), they contend for membership and resources amongst themselves and with the three registered political parties. These parties' leaders quietly oppose new party registration but face strong internal opposition. Splinter factions in all three political parties, the ruling PDP (People's Democratic Party), APP (All People's Party), and AD (Alliance for Democracy), sense opportunity and potential political safehaven in these new formations, as do many state governors. If the new groups succeed in registering for election 2003, the end result could be a wide open electoral campaign.

17. (C) The National Assembly is reviewing INEC's draft act setting basic ground rules for elections. Several of the new political groupings have announced a refusal to abide by this proposed act, which is required by the Constitution, but this, if taken seriously, would lead to electoral chaos. Legislators would prefer to take their time to sort out their political options (and, perhaps, prevent or delay new party registration). But INEC must begin essential preparations quickly. Local elections are now less than a year away (and will be run by state INECs, another headache for the national body).

Niger Delta

18. (C) Some believe the Delta needs only a few honest brokers to mend tribal fences and restore hope for economic development; yet there seem none to be found. The indigenes distrust and resent government officials, oil companies, tribal chiefs, youth group leaders, and self-appointed conflict resolvers. Attempts to buy peace with short-term handouts are no real solution. Tribal chiefs and clan leaders sacrifice truth on the altar of political expediency (behavior not unknown outside the Niger Delta). Although ethnic tension has not lately approached the levels seen in late 1999, the area still seethes with resentment and the potential for turmoil. The NDDC has been formally established to build basic social infrastructure in the South, but the NDDC statute saddles it with the staff, liabilities, and unfinished business of OMPADEC, its failed predecessor. With this burden of past governmental folly, the NDDC will make slow and painful progress.

Sharia

19. (C) Ethnic and tribal ferment in the South-South has been matched by a Sharia crusade in the North. Profound misunderstanding seems often seem inevitable on this divisive issue. Sharia reform is a broadly grassroots movement, the mom-and-apple-pie of the North, that no Northern elected leader can oppose. Yet, by and large, Northern governors and Emirs feel little sympathy for it. A truly Sharia-based society would establish a rival system of social and political control. Those responsible for decades of misrule and theft of resources (grasping Northern politicians and complacent Emirs) would not last long. Sharia for most politicians in the North is something to placate the Northern masses, who (like the Southern masses) increasingly want a democracy dividend, justice for the poor and better living conditions.

20. (C) Only two Northern governors have shown real personal commitment to the imposition of criminal Sharia, Governor Kure of Niger State, a pious Muslim, and Governor Sani of Zamfara State, a skillful and amoral demagogue. All eight far Northern states have now adopted some form of enhanced criminal Sharia, as has Niger State just to the south. Virtually all these states have limited themselves to essentially cosmetic changes, reinforcing bans on alcohol, requiring conservative dress in public places, and other relatively minor dictates. (Zamfara is a special case, with medieval amputations imposed twice on male thieves, and two adulteresses caned). Obasanjo's public response has lately been to studiously avoid commenting on the movement (after several public statements in 2000 condemning Zamfara's laws as unconstitutional). Vice President Abubakar seriously damaged his standing in the North with an ultimately unsuccessful call on Northern governors to revert to the "status quo" and refrain from further action on criminal Sharia.

21. (C) Obasanjo's Rose Garden strategy on Sharia, while galling to many Southerners, has arguably done no harm. Much of the early ferment over Sharia reforms has dissipated. He will likely watch from afar, and hope that Northern governors (aided by his Northern Vice President, Northern National Security Advisor, and other Northerners serving in his Administration) can quietly keep the Sharia reform movement within non-confrontational channels.

Transparency, Rule of Law, Corruption

22. (C) The war that Obasanjo must wage, and win, is against public corruption. Nigeria annually contests for the unenviable rating as the most corrupt nation on earth. Previous civilian and military regimes institutionalized public corruption to a nearly unimaginable extent, and the generally accepted view is that things are no better than during military rule.

123. (C) The Presidency does not hesitate to lubricate its political objectives with hard cash. The President generally stands above the fray, but his political handlers hand out the pay packets when an important Presidential goal hangs in the balance. Many of his Ministers are corrupt, and they set the tone for those serving under them. Corruption in the courts is as omnipresent as sanctity of contract is absent. In a society where only money talks, establishing the rule of law and reforming important public institutions are not near-term goals. However, convincing the general public that corruption will not be tolerated is something the GON can begin.

124. (C) The arrest and prosecution of high-level government officials is the place to start. The new Anti-Corruption Commission, still organizing, has done no more than pursue very minor public officials. Although pre-existing laws forbid public corruption, regular Justice Ministry prosecutors take little action. Even if his personal rectitude seems clear, Obasanjo has yet to convince his own top officials that they will be held liable for corrupt acts.

Reforming the Military -- Civilian Authority Ascendant

125. (C) One bright spot for the nation is the military's assumption of a more traditional mission of national security and regional peacekeeping. Well-timed retirements and reorganizations have side-lined many practitioners of military old-think. USG training (Operation Focus Relief, MPRI) demonstrates to the rank-and-file that a proper orientation wins equipment, training, respect, greater legitimacy, and professional opportunity. Whether the very upper ranks accept these opportunities as readily is perhaps still an open question. The sudden "scheduled" retirement of Army chief General Victor Malu came after his continuing obstructionist behavior, behavior that bordered on insubordination. But we should remember that President Obasanjo neutralized what we and others expected would be a real political threat (we recall some of our British colleagues predicting Obasanjo's demise within six months of assumption of authority). In fact, the sacking of the Service Chiefs, which occurred with some predictable protests from northerners, but not from the military establishment, represented a watershed in Nigeria's political-military relations: a clear assertion of civilian authority over the man-on-horseback.

The Enticements of International Diplomacy

126. (C) Obasanjo has embraced his foreign affairs portfolio, offering as it does a welcome respite from the rough and tumble of domestic politics. Periodically legislators and media commentators allege that Obasanjo's extensive foreign travels earn Nigeria nothing, and only divert the President from pressing domestic issues. Obasanjo responds that such travel is necessary to repair Nigeria's reputation, and win its rightful place in the world. He can cite re-admission to the Commonwealth, the conclusion of an IMF Standby Agreement, the very real prospect of debt relief from the Paris Club, and USG narcotics certification as examples of the benefits to be gained from full diplomatic engagement. Obasanjo's ultimate goal, aside from positively influencing donors and creditors, is to secure a permanent seat on the UN Security Council.

127. (C) Nigeria's efforts in West Africa are extensive and widely applauded, and the country continues to be the dominant player in the sub-region. Obasanjo also seeks or accepts a role in such disparate African trouble spots as Burundi, DROC, Sudan, and Zimbabwe. The GON also actively participates in OPEC deliberations, G-77, the NAM, and other international fora. Obasanjo has forged a strategic partnership with President Mbeki of South Africa, and taken a leading role both in plans for the African Union and in a new strategy for an African renaissance, the Millenium Action Plan. However, with little to show in the way of a concrete democracy dividend for the average impoverished Nigerian, abstruse issues such as debt relief, Standby Agreements and African Union may not appeal to voters in 2003.

Two Years Gone: Time for Celebrations?

128. (U) Nigeria marked May 29, 2001, the second anniversary of civilian rule, as a public holiday. Not, Obasanjo said in a speech that day, "out of vanity" but from "our unalloyed commitment" to an "enduring, sustained and sustainable" democratic transition. He reminded his audience that democracy is not "an event but a process," and that "aspirations for immediate dividends," while understandable,

were "unrealistic." Said the President, "even with the best will and the greatest efforts, the necessary fundamental transformation is bound to take years to achieve."

129. (C) His analysis strikes us as correct, but not a sufficient answer to his domestic critics. At the halfway mark, President Obasanjo's scorecard is decidedly mixed. Has he succeeded in substituting hope for despair? Not in our judgment, but he clearly has done better than many expected two years ago. Have we become more impatient than the average Nigerian? Surely it is an open question whether Obasanjo has made enough of a difference to win a second term in an open and transparent contest. He does have two more years, and may be able to hinder his opposition through manipulating political party registration. However, Obasanjo also faces limited policy running room and an increasingly complicated domestic political climate. There is some progress, but hardly enough to improve the plight of 120 million-plus largely penniless citizens.

130. (C) Could Obasanjo have moved more quickly? Given Nigeria's many deep divisions and enduring problems, probably not. But in retrospect, had he paid closer attention to domestic matters, and mounted a more focused effort on issues of deep public concern, he perhaps could have set the stage for a stronger second half. The "transition" begun on May 29, 1999 is still a work in progress.

131. (C) All-in-all, however, the situation may not be as bad as it sometimes seems. Nigerians are enjoying a virtual renaissance in their constitutional freedoms. They can say what they like, write what they like, and freely criticize their leaders. The press is open and free, and a start is being made in restoring this country's once proud institutions. The praetorian instincts of the military have been bridled, and the private sector has gained some ground. Although still very imperfect, the human rights record is better than it has been for some time. The trappings of democracy abound; moreover, Nigeria has regained acceptance and respectability in the international community. These are not insignificant gains.
Jeter